United Nations Industrial Development Organization

Distr.
LIMITED

ID/WG.130/4
27 April 1972

ORIGINAL: ENGLISH

UNIDO/LES Symposium on Problems and Prospects of
Industrial Licensing in Developing Countries

New York, NY - 2-5 May 1972

IMPORTANCE OF INDUSTRIAL PROPERTY PROTECTION IN DEVELOPING COUNTRIES [1/]

by

Ludwig Baeumer
Counsellor
Head, Legislation and
Regional Agreements Section
Industrial Property Division
World Intellectual Property Organization

1/ The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has been reproduced without formal editing.

id.72-2531

I.

The World Intellectual Property Organization has accepted with pleasure UNIDO's invitation to participate in this symposium, organized jointly by UNIDO and LES and dealing with questions which directly concern one of the great tasks of our time: the transfer of technology to developing countries.

This is a task to which LES can make a significant contribution, since LES represents those who actually deal with one form of transfer of technology, namely licensing.

II.

The subject of my paper is the legal framework under which license agreements are concluded, namely legislation relating to industrial property. Before dealing with questions of particular concern to developing countries, let me first say a few words on the importance of industrial property for licensing in general.

The term "industrial property" is generally understood in a broad sense, not only referring to the protection of inventions, trademarks and industrial designs, but including also the repression of unfair competition. In this sense the term "industrial property" includes the protection of unpatented technology, generally designated as "know-how", which plays an important role in licensing and which may enjoy a certain protection, in particular as long as it is secret.

However, I am not dealing here with the latter form of protection, but with exclusive industrial property rights which result from the filing of applications and the grant of registrations by Government agencies, namely patents, trademarks and industrial designs. In this context, patents deserve special attention, since they are the most important part of industrial property for the purposes of licensing.

Patents are often referred to as "vehicles for licensing". They are thus understood as facilitating license agreements. But what exactly is the function described by the word "vehicle"?

From the point of view of a potential licensor, the existence of a patent is first of all a safeguard for his bargaining position. You all know that a patent normally gives its owner the exclusive right to manufacture, sell and use the patented product or the product manufactured according to the patented process, and to use the patented process. Unless forced by compulsory licensing, the patent owner is free to grant or not to grant a license, and he enjoys an efficient protection against infringement.

From the point of view of a potential licensee, it seems at first glance that anything which strengthens the position of the licensor would weaken the position of the licensee. However, this is not necessarily so. First of all, the existence of a patent is an element in the negotiation which helps a potential licensee to evaluate the subject of the license. This is not always possible if the license agreement concerns only unpatented know-how, in particular if the know-how is secret, for in the latter case the licensor would not communicate the know-how before an agreement has been reached.

Patented technology, however, has been disclosed to the public. Any interested potential licensee can obtain information concerning the existence of patent rights, the scope of protection and the duration of such rights.

He can even make a search as to the validity of such rights. Thus, in the negotiation he does not depend exclusively on information received from the potential licensor. In fact, patenting puts technology into commerce; the technology becomes tradeable, and patents can thus be considered as "vehicles for licensing".

In saying this, I am completely aware of the fact that in many cases, only a part of the technology which is licensed can be patented and that another part--sometimes even more important--consists of unpatented know-how. Nevertheless from the point of view of a potential licensee, this does not mean that his position is better if the potential licensor has no patents.

In this context, there is still another aspect to be mentioned: exclusive rights are subject to certain rules laid down by the legislation governing their existence and their scope. Such rules are certainly a safeguard for a potential licensor; but they may also be a safeguard for a potential licensee. Clearly defined rules given by industrial property laws can afford a safe ground for transactions, and both parties to an agreement benefit from such safety.

Finally, only on the basis of industrial property rights can a licensee obtain the exclusive position which he may require if he intends to make considerable investments. If the license covers only unpatented technology, there is no possibility of granting the licensee protection against third parties who use the same technology. Under such circumstances a potential licensee may hesitate to conclude an agreement. The position in which he is interested can be obtained only by the licensing of exclusive rights.

III.

After these general observations I should now like to examine more closely the situation in developing countries. This situation is characterized by the fact that in most of those countries a huge percentage of all patent applications is filed by foreigners.

Of course, even in many industrialized countries the number of patent applications filed by foreigners is higher than the number of patent applications filed by nationals, since usually the sum of all technology created abroad exceeds the technology created inside a country. Thus, countries like France, the Federal Republic of Germany and the United Kingdom receive more patent applications from abroad than from the country itself. There are only a few countries in which nationals file more patent applications

than foreigners, for instance the United States and Japan. But in any case the percentage of patent applications coming from abroad is growing in all countries since the average number of countries in which protection is sought for one and the same invention is increasing.

Nevertheless, the situation in most developing countries presents particular features in view of the relatively wide gap between applications coming from abroad and applications coming from the country itself. According to the 1970 industrial property statistics, which contain data for 49 developing countries, in twelve developing countries the percentage of patent applications filed by nationals or residents was less than 1%: (Bahrain, Burundi, Ghana, Kenya, Khmer Republic, Laos, Libya, Nigeria, Sierra Leone, Singapore, Zair and Zambia).

In 21 developing countries this percentage was between 1 and 10%: (Algeria, Dominican Republic, Malawi, Morocco, the countries which are members of OAMPI (Office Africain et Malgache de la Propriété Industrielle), Philippines, Syria, Trinidad and Tobago and Tunisia).

Twelve developing countries had percentages between 10 and 25%: (Bolivia, Ceylon, Chile, Colombia, Ecuador, Egypt, Guatemala, India, Iran, Iraq, Lebanon and Venezuela), and in only four developing countries the percentage exceeded 25%, namely in Argentina, Brazil, Costa Rica and Uruguay.

The problems raised by a high percentage of applications coming from abroad have led to a discussion on the question of whether it is at all in the interest of developing countries to grant patents. This question has in particular been considered in the report of the Secretary-General of the United Nations on "The Role of Patents in the Transfer of Technology to Developing Countries", which was published in 1964. This report deals with some aspects of foreign-owned patents in developing countries, in particular with the conditions for licensing of such patents, and with the problems raised by patents which serve only to secure import markets, without being effectively exploited in the developing countries. It reaches the conclusion that possible high prices of imported articles protected by patents, and possible high royalties or fees for licensing of foreign-owned patents, cannot be prevented by the abolition of the patent system, and that developing countries can avoid excessive exploitation of their one-sided technological and financial dependence only by other methods, for instance measures to control unreasonable prices or screening and control of license agreements in order to avoid unduly restrictive features.

Developing countries apparently share this view to a large extent. The usefulness of the patent system has been recognized by the fact that an important number of such countries in Africa and Asia, as well as in Latin America, have recently adopted new legislation on patents.

The following new patent laws which have been issued during the last ten years deserve particular attention:

1) In Africa

(a) In 1962, twelve African countries adopted an Agreement Relating to the Creation of an African and Malagasy Industrial Property Office and providing for a uniform patent law. Those countries are: Cameroon, Central African Republic, People's Republic of the Congo, Ivory Coast, Dahomey, Gabon, Upper Volta, Malagasy Republic, Mauritania, Niger, Senegal and Chad.

Subsequently, Togo joined this Agreement. The African and Malagasy Industrial Property Office (abbreviated "OAMPI", according to the French name) has been set up in Yaoundé in Cameroon and it now functions as the Patent Office for those 13 countries.

(b) Algeria adopted in 1966 an Ordinance Relating to Inventors' Certificates and Patents for Inventions, which partly follows the Draft Model Law prepared by BIRPI, the predecessor of WIPO.

(c) In 1970 Nigeria adopted a Patents and Designs Decree, which also to a large extent is similar to WIPO Model Laws.

(d) Finally, in October 1971, the Sudan issued a Patents Act which almost literally reproduces the WIPO Model Law for Developing Countries on Inventions.

2) In Asia there was also an important legislative activity in the patent field. In particular should be mentioned the new Patents Act of India, issued in 1970, and the Patents and Industrial Designs Law of Iraq also adopted in 1970.

3) A particular legislative activity can be observed in Latin America:

(a) Brazil, which in 1967 and 1969 had issued Industrial Property Codes, adopted in December of last year a new Industrial Property Code. This new Code in particular modernized the patent system by introducing an

early publication of all patent applications and a grant of patents after examination as to substance, which will take place only at the special request of the applicant.

(b) Peru issued in 1970 a general law on industry, which in its Chapter V contains a regulation of industrial property, including patents.

(c) Similarly, Colombia adopted in 1971 a new Commercial Code containing provisions on patents.

This impressive list of new patent laws in developing countries could be completed by a similar list concerning legislation on trademarks and -- to a lesser extent - on industrial designs. Furthermore, we know of several developing countries which at present are preparing new industrial property legislation. In particular could be mentioned here the current work undertaken by the Industrial development Center for Arab States and WIPO on a draft Model Law on Inventions for Arab countries.

IV.

After this survey on the legislative activity in developing countries, the question arises: what are the characteristic features of these new laws?

In this context, the following aspects require special attention since they have an impact on licensing:

1) patentable inventions;
2) examination as to substance;
3) duration of protection;
4) measures promoting the exploitation of patented inventions, in particular compulsory licensing;
5) control of license agreements.

1) As regards patentable inventions, opinions are divided on the patentability of inventions relating to food and pharmaceuticals: Some of the laws which I have mentioned do not contain any restrictions in this respect. This is the situation in several African countries, such as Algeria, the Sudan and Nigeria and in Peru (the latter country, however, providing for a general limitation of patentability excluding patents which do not contribute to the permanent industrial development of Peru or which are not of social interest).

Other countries, namely the OAMPI group and Iraq, exclude pharmaceuticals from patenting but permit patents for processes relating to the manufacture of pharmaceuticals. Colombia also distinguishes between product and process patents, admitting only the latter and only if exploited in Colombia and if the products manufactured

according to the protected process are offered on the Colombian market under reasonable conditions as regards quantity, quality and price.

India excludes from patenting substances capable of being used as food, drugs or pharmaceuticals, and substances prepared or produced by chemical processes, but grants process patents relating to such products, however only for a considerably shorter term than in the case of other patents and subject to licenses of right after three years from the grant.

The most restrictive solution is to be found in the Brazilian law, which excludes from patenting not only pharmaceutical and food products, but also processes relating to the manufacture of such products.

The underlying philosophy of such restrictions is that no monopoly should be admitted with respect to inventions which are vital for national health and well being. It should be noted, however, that lack of protection may lead to a lack of stimulus for research in the country, since investments in research laboratories are made in many cases only if patent protection exists. The consequence could be that countries without any protection become, in this vital area, dependent upon the research which is being carried out in other countries. For this reason, an opposite trend--namely towards strengthening the pro-

tection for inventions relating to pharmaceuticals--can be observed in European countries.

2) As regards examination as to substance, only two of the mentioned countries which have recently enacted legislation examine the novelty of inventions, namely India and Brazil.

In addition, however, the new Colombian law provides for the possibility of such examination in an opposition procedure and on the basis of special decrees to be issued by the Government in respect of certain specified fields of technology.

Examination as to substance can be highly important for licensing. Both the licensor and the licensee are normally interested in having valid rights. Invalidation of a patent which is the subject of a license has an adverse effect on the license agreement. In particular for a licensee who has made investments trusting in the validity of a patent, it can be most disadvantageous if the patent turns out to be invalid. The risk of invalidation is much greater if a patent has been granted without examination as to substance.

However, the establishment of such an examination requires an important amount of qualified personnel, which is often difficult to find in developing countries. In order to overcome such difficulties, developing countries could combine their resources and set up regional Offices granting patents for a group of countries. Such a regional Office has been established, for instance, pursuant to the OAMPI Agreement, already mentioned, in Yaoundé (Cameroon). The setting up of other such Offices is at present being considered.

Moreover, developing countries will be able to use the possibilities offered by the Patent Cooperation Treaty (PCT) of 1970, once this Treaty has entered into force. I am in particular referring to the International Search Report and the International Preliminary Examination Report provided for under the PCT. These documents will greatly facilitate the task of Patent Offices in examining patent applications.

3) As regards the duration of patents, there are significant divergencies. While all the mentioned African countries fix the term of patent protection at 20 years from the filing, India distinguishes between ordinary patents, which last 14 years from the grant, and patents relating to processes for the manufacture of food, drugs and pharmaceuticals, which expire 5 years after the grant or 7 years after the filing, whichever period is shorter.

Significant divergencies can also be observed in Latin America: Brazil grants patents which are protected for 15 years from the filing date; Peru has limited the term of protection to 10 years from the grant, and the Colombian law provides a term of 8 years from the grant, with a possible prolongation of 4 years if the patented invention is effectively exploited in Colombia.

4) As regards measures promoting the exploitation of patented inventions, in particular compulsory licensing, there is a great variety of provisions in the recently adopted patent laws in developing countries. Such provisions serve the purpose of preventing patents from being taken out only to secure markets, without an effective working of the inventions by manufacture in the country. In this context, exploitation does not mean that the patent owner himself has to exploit the invention. It is sufficient that he has granted a license and that the licensee works the invention. Thus these provisions can provide a stimulus for the granting of licenses, since importation is not considered as working the invention.

From a check of the pertinent provisions of the patent laws issued in developing countries during the last 10 years, it appears that all those laws contain provisions on compulsory licensing, in the event that a patented invention has not been worked after a certain period. A compulsory license is granted to an

individual applicant, at his special request, and normally the applicant must prove that he is able to exploit the invention. Moreover, a number of laws provide for compulsory licenses if the exploitation of the invention is not sufficient in order to supply the market, or if such licenses are required in the public interest (for instance public health, defense, etc.).

In addition to compulsory licenses, the patent law of India provides for the possibility of the endorsement of a patent with the words "Licenses of right". Such endorsement has the effect that any interested person in India may require the patentee to grant him a license, and that, if the parties cannot agree on the terms of the license, the Patent Office decides on such terms. The endorsement with the words "Licenses of right" may be effected three years after the grant of the patent. Certain kinds of patents, in particular process patents relating to chemical substances, food, drugs and pharmaceuticals, are automatically deemed to have been endorsed after three years from the grant.

Furthermore, a number of countries provide for the possibility of revoking patents, or of an automatic lapse, if compulsory licensing or licenses of right are not sufficient.

5) I now turn to the fifth and last aspect of patent legislation in developing countries which is important for license agreements, namely legal provisions governing such agreements. Most of the laws which have been considered here contain provisions on contractual licenses, which concern in particular the form of a license contract (namely that it shall be in writing), its registration, and the rights and obligations of the parties (in most cases applying only in the absence of any provision to the contrary in the agreement).

Of special interest are provisions setting up a Government control of license agreements and concerning invalid clauses in such agreements.

Some countries (for instance Algeria, Nigeria and the Sudan) require Government approval of license agreements in so far as they involve the payment of royalties outside the country.

A number of countries, however, provide for a much broader control of license agreements.

An interesting example of such a provision is contained in Decision No 24 of the Commission of the Acuerdo de Cartagena, which groups five Latin American countries, namely the so-called Andean Group: Bolivia, Chile, Colombia, Ecuador and Peru. The said Decision No 24, issued in December 1970 concerns the common

treatment by the countries of the Andean Group of foreign capital, trademarks, patents, licensing agreements and royalties; its Article 18 prescribes that any contract regarding importation of technology or regarding use of patents and trademarks shall be reviewed and submitted to the approval of the pertinent agency of the respective Member Country, which shall evaluate the effective contribution of the imported technology by means of an appraisal of its possible profit generation, the price of the goods embodying technology or other specific means of measuring the effect of the imported technology.

The implementation of this provision in the member countries of the Andean Group is currently under way.

Furthermore, Argentina adopted, in September 1971, a law which follows the Andean Group regulation, establishing a system of compulsory registration and approval of all license agreements that bind parties domiciled in Argentina to parties domiciled abroad.

As regards invalid clauses in license agreements, some countries (for instance, Colombia and the Sudan) have enacted provisions according to which clauses in license contracts shall be null and void in so far as they impose upon the licensee restrictions not deriving from

the rights conferred by the patent; in addition, those laws clarify that certain stipulations are not to be considered as such restrictions, for instance limitations concerning the quantity or duration of exploitation or limitations which are justified by the interest of the licensor in the technically flawless exploitation of the subject of the patent.

The Indian patent law expressly prohibits clauses in license agreements imposing on the licensee obligations concerning the purchase or use of certain articles or the use of certain processes.

.The Regulations of the Andean Group and the new Argentinian law provide for a complete review of license agreements. They enumerate several kinds of invalid clauses in such agreements, in particular the obligation of the licensee to buy certain material, to apply certain resale conditions, not to use competitive technology, to transfer improvements or to pay royalties for unused patents.

Since these provisions were issued only recently, their effect in practice cannot yet be evaluated. There is, however, an interesting difference between the Regulations of the Andean Group and the Argentinian Law. While

Decision No 24 contains mandatory provisions concerning the invalidity of license agreements, the Argentinian law entrusts the executing agency with a discretionary power. The latter solution may permit more flexibility in the application of the law.

V.

This brief review of recent provisions of industrial property legislation in developing countries could not of course consider the questions in detail. As a conclusion, it could be noted that legislative activity in developing countries in the field of industrial property appears to be encouraging. These countries are offering a considerable amount of protection and they are, to a large extent, conscious of the fact that industrial property protection has, on the one hand, to be balanced by considerations of public interest, and, on the other hand, to be attractive enough in order to be used by those who are interested in such protection. But it should not be overlooked that the use which is made of exclusive rights influences the attitude of Governments controlling the existence of such rights. In the long run, only a fair use of such rights will serve the cause of efficient industrial property protection.